



0000161461

BEFORE THE ARIZONA CORPORATION COMMISSION

SUSAN BITTER SMITH

Chairman

BOB STUMP

Commissioner

BOB BURNS

Commissioner

DOUG LITTLE

Commissioner

TOM FORESE

Commissioner

Arizona Corporation Commission

DOCKETED

MAR 16 2015

DOCKETED BY

IN THE MATTER OF THE APPLICATION
OF DUNCAN VALLEY ELECTRIC
COOPERATIVE, INC. - GAS DIVISION
FOR APPROVAL OF THE FAIR VALUE OF
ITS PROPERTY FOR RATEMAKING
PURPOSES, TO FIX A JUST AND
REASONABLE RATE OF RETURN
THEREON, TO APPROVE RATES
DESIGNED TO DEVELOP SUCH
RETURN, AND FOR RELATED
APPROVALS.

DOCKET NO. G-02528A-14-0361

DECISION NO. 74996

ORDER

Open Meeting
March 2 and March 3, 2015
Phoenix, Arizona

BY THE COMMISSION:

Having considered the entire record herein and being fully advised in the premises, the
Arizona Corporation Commission ("Commission") finds, concludes and orders that:

FINDINGS OF FACT

1. In Decision No. 73649, dated February 6, 2013, the Arizona Corporation Commission
("Commission") adopted revisions to Arizona Administrative Code ("A.A.C.") R14-2-103 ("Rule")
and added a new section A.A.C. R14-2-107 establishing an alternative streamlined ratemaking
application and process for non-profit cooperatives providing electric or natural gas utility service
("Rule 107").

2. Duncan Valley Electric Cooperative, Inc. - Gas Division ("DVEC" or "Cooperative")
is a non-profit cooperative which provides natural gas service to customers in Arizona.

1 3. On September 5, 2014, DVEC submitted to the Commission's Utilities Division
2 ("Staff") a Request for Pre-Filing Eligibility Review in accordance with Rule 107(C) which included a
3 draft application to increase rates and charges pursuant to Rule 107 and Arizona Revised Statutes
4 ("A.R.S") § 40-250, a proposed form of customer notice, and a proposed form of recommended
5 order.

6 4. On October 6, 2014, DVEC met with Staff as required by Rule 107(C)(B) to discuss
7 the Cooperative's eligibility under Rule 107(B), the proposed form of customer notice, and the
8 proposed form of recommended order. At the meeting, Staff advised DVEC that it met the eligibility
9 requirements of Rule 107(B) for filing a streamlined rate case. At the meeting, Staff also approved the
10 form of customer notice to be mailed to customers as required by Rule 107(C)(5) and Rule 107(D).

11 5. On October 6, 2014, in accordance with Rule 107(C)(4), DVEC filed a Request for
12 Docket Number and Notice of Filing Proposed Form of Customer Notice. The docket number was
13 assigned that same day.

14 6. On October 7, 2014, DVEC caused a copy of the approved customer notice to be
15 mailed via First Class Mail to all customers of record as of the date of mailing. On October 15, 2014,
16 DVEC docketed a Notice of Mailing Customer Notice certifying that the approved customer notice
17 was mailed via First Class Mail on October 7, 2014, to each customer of the Cooperative as required
18 by Rule 107(C)(5) and Rule 107(D). The customer notice set a deadline of November 7, 2014, for
19 customers of DVEC to file intervention requests and/or objections to the application that would be
20 filed.

21 7. On October 28, 2014, DVEC filed its application ("Application") pursuant to A.R.S. §
22 40-250 and Rule 107 to increase its rates and charges using a test year ending January 31, 2014.
23 DVEC requested that the Application be approved without a hearing.

24 8. By the close of business on November 7, 2014, the Commission had received no
25 objections to the rate increase which is below the 5% of all customer accounts¹ or no more than 1,000
26
27

28
¹ As of January 31, 2014, the total number of Arizona DVEC customer accounts was 749. Therefore, 5% of the customer accounts are 37.

1 customer accounts, whichever are fewer, required to make DVEC ineligible for the Rule 107 process.
2 There were also no intervention requests filed.

3 9. On November 20, 2014, Staff filed a Notice of Eligibility pursuant to Rule 107(H)(2)
4 notifying DVEC that it met all of the eligibility requirements set forth in Rule 107(B) to file a rate case
5 under Rule 107.

6 10. On November 20, 2014, Staff filed a Notice of Sufficiency pursuant to Rule 107(H)(3)
7 notifying DVEC that the Application met all of the requirements of Rule 107(E) and classifying the
8 Cooperative as a Class C utility.

9 **DESCRIPTION OF DVEC**

10 11. DVEC is an Arizona member-owned non-profit natural gas distribution cooperative
11 headquartered in Duncan, Arizona. DVEC provides natural gas distribution service to approximately
12 750 members/customers located in Greenlee County, Arizona.

13 12. DVEC has an eight member Board of Directors ("Board") elected to oversee all
14 aspects of the Cooperative's operations. The Board approved the filing of the Application at a regular
15 meeting of the Board on August 18, 2014.

16 13. DVEC's last rate case was filed on May 2, 2005 (based on a test year ending December
17 31, 2004) and approved in Decision No. 68599, dated March 23, 2006. The current rates and charges
18 went into effect April 1, 2006, for DVEC's customers.

19 **DVEC PROPOSALS**

20 14. In the Application, DVEC utilized a test year ending January 31, 2014.

21 15. Also in the Application, DVEC requested to increase its annual gross revenue
22 requirement by \$25,145, from test year total revenues of \$593,044 to \$618,189. This increase
23 represents an increase of 6% over test year base revenue from \$419,108 to \$444,253.

24 16. In its filing, DVEC stated the rate application would result in an Operating Loss of
25 \$18,253.

26 17. The Application shows that a residential customer with monthly natural gas
27 consumption of 60 therms (average usage) in the winter will see a bill increase of \$3.36 per month
28 (from \$63.80 to \$67.16), or 5.27%. A residential customer with monthly natural gas consumption of

1 16 therms (average usage) in the summer will see a bill increase of \$1.57 per month (from \$24.16 to
2 \$25.73), or 6.50%. A residential customer with monthly natural gas consumption of 52 therms
3 (median usage) in the winter will see a bill increase of \$3.05 per month (from \$57.96 to \$61.01), or
4 5.26%. A residential customer with monthly natural gas consumption of 13 therms (median usage) in
5 the summer will see a bill increase of \$1.46 per month (from \$23.38 to \$24.84), or 6.24%.

6 18. DVEC stated the rate increase is necessary to partially recover operating costs. The
7 rate increase would allow DVEC to maintain the financial integrity of the Cooperative.

8 19. As attachments to the Application, DVEC submitted audited financial statements for
9 the year ended December 31, 2013, and a copy of its certified annual financial and statistical report to
10 the National Rural Utilities Cooperative Finance Corporation ("CFC") for calendar year 2013
11 including a divisional financial report.

12 **COOPERATIVE ELIGIBILITY**

13 20. For a cooperative to utilize the streamlined rate case process referred to as Rule 107,
14 several eligibility requirements must be met prior to beginning the process. As documented in the
15 notice of eligibility, Staff agrees that DVEC has taken the necessary steps to comply with the eligibility
16 requirements of Rule 107.

17 **STAFF ANALYSIS**

18 21. As part of its review of the Application, Staff reviewed the purchased gas costs; the
19 fuel bank balance; the base revenue increase and test year data; the level of increase requested for each
20 rate schedule/class; the capital expenditures for the test year (including monies for infrastructure
21 development consisting of new distribution mains and services, upgrades to existing systems, and
22 installation of new equipment); proposed capital expenditure levels to ensure future system reliability;
23 the proposed rate base, revenue, and expenses; and the proposed revenue requirement. Staff also
24 completed a compliance review.

25 22. DVEC and Staff, the only parties to this case, are in agreement on all issues in this
26 case.

27 ...

28 ...

1 Purchased Gas Costs

2 23. DVEC reported purchased gas costs for the test year equal to \$169,683. Staff was able
3 to track and verify the purchased gas costs through a sampling of invoices provided by DVEC to
4 support the reported costs.

5 24. Staff was able to track monthly fuel adjustor filings for the test year with those costs
6 and volumes reported in the Application, except for a variance between therms purchased from the
7 supplier and therms billed to DVEC's retail customers. Staff noted the therms purchased in the test
8 year were 378,190. The therm sales during the test year were 420,710. Staff discussed the difference
9 in therms with DVEC. DVEC indicated that the difference was due to city gate² meters not correctly
10 registering total throughput. DVEC also indicated that it has had discussions with the interstate
11 pipeline company concerning the variance in throughput. The interstate pipeline company
12 acknowledges the issue and is exploring a different type of metering that should correct the problem.

13 25. DVEC did not calculate a new base cost of gas in the Application and held the bank
14 balance constant between the test year and proposed rates with test year data. Rule 107 specifies that
15 the increase request of a maximum of 6% is in base revenue, not attributed to revenue from an
16 adjustor mechanism. As established in Decision No. 68599, the base cost of gas was reset to zero
17 moving the entire cost of gas to DVEC's Purchased Gas Adjustor ("PGA"). Moving the entire cost
18 of gas to the PGA was believed to be a simpler method for tracking the cost of gas and to help
19 facilitate consumer understanding of bills. This Application does not propose a change to the existing
20 PGA, adopt a new adjustor or surcharge mechanism, nor does it adopt a new hook-up fee.

21 Rate Design

22 26. DVEC provided proof of revenue broken down by rate schedule. In accordance with
23 Rule 107, all residential monthly system charge increases are less than 25%, the overall base revenue
24 increase, excluding PGA revenue, is no more than 6%, and all rate class increases are within 150% of
25 the base revenue increase requested. DVEC did not propose any rate structure change or non-price
26 tariff change.

27
28 ² At a city gate, natural gas is transferred from an interstate or intrastate pipeline to a local distribution natural gas utility. Gas regulators reduce the pipeline gas pressure to distribution pressure.

1 27. DVEC and Staff agree on the rates set forth in Exhibit A, which is attached hereto and
2 incorporated herein.

3 Staff Pipeline Safety Section

4 28. Staff, analyzed the DVEC application and reviewed the capital expenditures for the
5 test year, which included monies for infrastructure development, including new distribution mains and
6 services, upgrades to the existing systems and installation of new equipment such as measurement and
7 pressure regulating stations. Staff also performed annual audits which include a procedure and
8 records review in addition to an extensive field review of the system. These Audits focus on the
9 operator's compliance with Title 49 Code of Federal Regulations, Parts 191, 192, 199, 40 and the
10 A.A.C. R14-5-202 and R14-5-203, as the minimum standards for the transportation of natural gas by
11 pipeline. Audits for years 2012 and 2013 produced minimal findings and no unresolved compliance
12 issues. Staff also noted that DVEC has performed no capital build-out or major replacement projects.

13 29. Based on its analysis, Staff concluded that:

- 14 A. capital expenditures for the test year were appropriate to meet the needs of
15 DVEC's existing customers and ensure system reliability;
16 B. capital expenditure levels proposed by DVEC appear to be reasonable and
17 appropriate to meet the projected needs of DVEC's existing and new
18 customers and ensure future system reliability; however
19 C. this does not imply a specific treatment of rate base for rate making
20 purposes in DVEC's future rate filings.

21 Rate Base, Revenues, and Expenses

22 30. In its filing, DVEC treats the original cost rate base ("OCRB") the same as the fair
23 value rate base ("FVRB").

24 31. The Application requested a rate base of \$614,803, test year total revenues of \$618,189
25 and expenses of \$636,441.

26 32. DVEC and Staff are in agreement on the proposed rate base, revenues, and expenses
27 and recommends adoption.

28 ...

1 Revenue Requirement and Rate of Return

2 33. DVEC proposed a revenue requirement of \$618,189. The proposed revenue
3 requirement would produce an operating loss of \$18,253 for no rate of return on an OCRB of
4 \$614,803.

5 34. Staff has recommended adoption of DVEC's proposed revenue requirement.

6 Consumer Services

7 35. Staff reviewed the Commission's records from January 1, 2012, through January 9,
8 2015, and found no complaints or opinions during that period of time.

9 36. As noted above, Consumer Services received no customer opinions in opposition to
10 the Application which was within the limits to proceed under Rule 107. The Corporations Division of
11 the Commission finds the Cooperative in "Good Standing".

12 **CONCLUSIONS**

13 37. DVEC's application is in compliance with Rule 107 allowing DVEC's rate case to be
14 processed under the alternative streamlined process.

15 38. DVEC and Staff are not requesting a hearing in this matter.

16 39. DVEC's OCRB and FVRB are determined to be \$614,803.

17 40. DVEC's proposed rate increases for each customer class are within the guidelines
18 established in Rule 107.

19 41. During the thirty (30) days customers had in which to object to the rate increase, no
20 customers filed objections, which is below the number required to cease processing under Rule 107.

21 42. Staff is in agreement with DVEC's proposed rate base of \$614,803, test year total
22 revenues of \$618,189, and expenses of \$636,441.

23 43. The rates and charges approved herein will produce an operating loss of \$18,253 for
24 no rate of return on an OCRB of \$614,803.

25 44. The rates and charges approved herein will increase revenues by \$25,145 or a 6.0%
26 increase in test year base revenue from \$419,108 to \$444,253.

27 45. Staff's recommendations should be adopted.

28 46. The rate design proposed by DVEC and agreed to by Staff should be adopted.

48. Under the rates approved herein, a residential customer with monthly usage of 60 therms (average usage) in the winter will experience a rate increase of \$3.36 (5.27%) from the current amount of \$63.80 to \$67.16. The residential customer with monthly usage of 16 therms (average usage) in the summer will experience a rate increase of \$1.57 (6.50%) from the current amount of \$24.16 to \$25.73. A residential customer with monthly usage of 52 therms (median usage) in the winter will experience a rate increase of \$3.05 (5.26%) from the current amount of \$57.96 to \$61.01. The residential customer with monthly usage of 13 therms (median usage) in the summer will experience a rate increase of \$1.46 (6.24%) from the current amount of \$23.38 to \$24.84.

CONCLUSIONS OF LAW

6. Duncan Valley Electric Cooperative, Inc. –Gas Division’s application meets the requirements of A.A.C.R14-2-107.

ORDER

Decision No. 74996

1 IT IS FURTHER ORDERED that the revised schedules of rates and charges shall be
2 effective for March 2015 usage billed on or after April 1, 2015.

3 IT IS FURTHER ORDERED that Duncan Valley Electric Cooperative, Inc. – Gas Division
4 shall notify its customers of the revised schedules of rates and charges authorized herein by means of
5 an insert, in a form acceptable to Staff, included in its next scheduled billing after a Decision in this
6 case is effective and by posting on its website.

7 ...

8 ...

9 ...

10 ...

11 ...

12 ...

13 ...

14 ...

15 ...

16 ...

17 ...

18 ...

19 ...

20 ...

21 ...

22 ...

23 ...

24 ...

25 ...

26 ...

27 ...

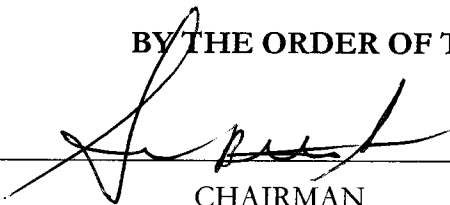
28 ...

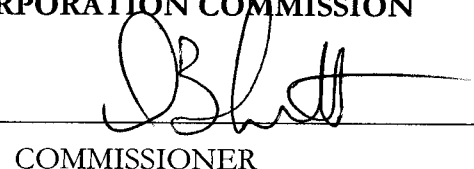
1 IT IS FURTHER ORDERED that Duncan Valley Electric Cooperative, Inc. – Gas Division
2 shall file each January with Docket Control, as a compliance item in this Docket, beginning January
3 2016, an annual status update regarding the gas throughput variance occurring at the city gate until the
4 metering issue has been resolved with the interstate pipeline company.


5 IT IS FURTHER ORDERED that Duncan Valley Electric Cooperative, Inc. – Gas Division's
6 base cost of gas and PGA should remain unchanged with the entire cost of gas contained in Duncan
7 Valley Electric Cooperative, Inc.'s. PGA.

8 IT IS FURTHER ORDERED that this Decision shall become effective immediately.

9
10 **BY THE ORDER OF THE ARIZONA CORPORATION COMMISSION**

11 
12 CHAIRMAN

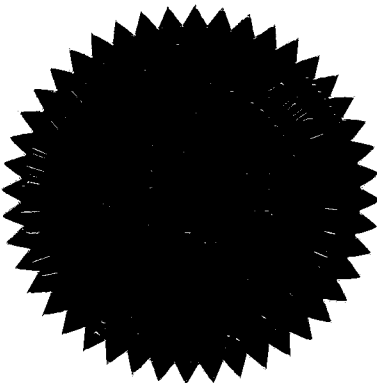
11 
12 COMMISSIONER

13 
14 COMMISSIONER

14 
15 COMMISSIONER

14 
15 COMMISSIONER

16 IN WITNESS WHEREOF, I, JODI JERICH, Executive
17 Director of the Arizona Corporation Commission, have
18 hereunto, set my hand and caused the official seal of this
19 Commission to be affixed at the Capitol, in the City of
20 Phoenix, this 16th day of March, 2015.



21 
22 JODI JERICH
23 EXECUTIVE DIRECTOR

24 DISSENT: _____

25 DISSENT: _____

26 SMO:PJG:vsc\RWG
27
28

1 SERVICE LIST FOR: DUNCAN VALLEY ELECTRIC COOPERATIVE, INC.
2 DOCKET NO. G-02528A-14-0361

3 Mr. Steven Lunt
4 Chief Executive Officer
5 Duncan Valley Electric Cooperative, Inc.
6 379597 AZ 75
7 P.O. Box 440
8 Duncan, Arizona 85534

9 Ms. Lyn A. Farmer, Esq.
10 Chief Administrative Law Judge
11 Hearing Division
12 Arizona Corporation Commission
13 1200 West Washington Street
14 Phoenix, Arizona 85007

15 Mr. Steven M. Olea
16 Director, Utilities Division
17 Arizona Corporation Commission
18 1200 West Washington Street
19 Phoenix, Arizona 85007

20 Ms. Janice M. Alward
21 Chief Counsel, Legal Division
22 Arizona Corporation Commission
23 1200 West Washington Street
24 Phoenix, Arizona 85007

Duncan Valley Electric Cooperative, Inc. - Gas Division
Docket No. G-02528A-14-0361
Test Year Ended January 31, 2014

Exhibit A
Page 1 of 1

DUNCAN VALLEY ELECTRIC COOPERATIVE, INC. - GAS DIVISION

Distribution Rates

<u>Present</u>	<u>Proposed</u>
<u>Rate</u>	<u>Rate</u>

SMALL METER <250 CFH

Monthly Service Charge	\$ 20.00	\$ 21.00
Winter Delivery Charge (Nov-Mar) - Per Therm	\$ 0.73000	\$ 0.76939
Summer Delivery Charge (Apr-Oct) - Per Therm	\$ 0.26000	\$ 0.29566

MEDIUM METER >250 <425 CFH

Monthly Service Charge	\$ 30.00	\$ 31.50
Winter Delivery Charge (Nov-Mar) - Per Therm	\$ 0.73000	\$ 0.76939
Summer Delivery Charge (Apr-Oct) - Per Therm	\$ 0.26000	\$ 0.29566

LARGE METER >425 CFH

Monthly Service Charge	\$ 40.00	\$ 42.00
Winter Delivery Charge (Nov-Mar) - Per Therm	\$ 0.73000	\$ 0.76939
Summer Delivery Charge (Apr-Oct) - Per Therm	\$ 0.26000	\$ 0.29566